



Auditor of Public Accounts
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Edelen Releases Audit of Spencer County Sheriff's Tax Settlement

FRANKFORT, Ky. – State Auditor Adam Edelen today released the audit of the sheriff's settlement – 2011 taxes for Spencer County Sheriff Donald Stump. State law requires the auditor to annually audit the accounts of each county sheriff. In compliance with this law, the auditor issues two sheriff's reports each year: one reporting on the audit of the sheriff's tax account and the other reporting on the audit of the fee account used to operate the office.

The audit found that the sheriff's financial statement fairly presents the taxes charged, credited and paid, for the period April 16, 2011 through April 16, 2012, in conformity with the modified cash basis of accounting.

As part of the audit process, the auditor must comment on non-compliance with laws, regulations, contracts and grants. The auditor must also comment on material weaknesses involving the internal control over financial operations and reporting.

The audit contains the following comments:

The Sheriff should improve bookkeeping procedures over his tax settlement. During the tax settlement audit, the following issues with bookkeeping within the Sheriff's office were identified:

- There were no receipts and disbursements ledgers maintained for the tax settlement.
- There was not a monthly reconciliation completed which reconciled activity in the bank to the Sheriff's tax collections and distributions.
- There were numerous errors noted on franchise bills (prepared by the county clerk) which went undetected by the Sheriff's office. See finding #4 for further detail of those errors.

Because of the issues identified above, the following errors were made and not identified by the Sheriff's internal control system:

- Add-on fees were not calculated and distributed to the fee account during the collection period, totaling \$27,647.
- Some refunds were not handled correctly resulting in overpayments to taxing districts.
- One franchise payment was not distributed to taxing districts.
- The entire amount of one franchise bill was distributed to taxing districts, but only a partial payment had been received from the taxpayer.
- Franchise collections for February 2012 were not distributed to one taxing district.

In addition, commission and interest payments due the fee account were written directly to the Fiscal Court, resulting in an inadequate audit trail and the state portion of the tax settlement was not included in the Sheriff's settlement prepared by a CPA firm, resulting in an incomplete settlement.

Complete, accurate records, including receipts and disbursements ledgers and bank reconciliations are necessary to ensure that all monies received during the tax collection period are distributed appropriately. These records help identify errors and ensure that funds are correctly accounted for and that errors are corrected timely. The lack of these records hindered the ability of the Sheriff to ensure that taxing districts and his fee account received distributions accurately and timely.

We recommend the Sheriff ensure sufficient records are maintained and that staff responsible for this activity understand the complexities of the tax settlement process. The Sheriff should seek additional training and/or guidance if necessary.

Sheriff's response: New software was purchased for the 2012 tax year, the receipt that prints for the customer has the information that is required.

The Sheriff has a lack of adequate segregation of duties over receipts. While documenting internal controls over the tax settlement process, we noted that the Sheriff's office lacks adequate segregation of duties without sufficient compensating controls. The Sheriff's bookkeeper receives and processes payments, posts payments to the tax system, prepares deposit tickets and reconciles monthly bank statements to the tax account checkbook. While the Sheriff reviews bank statements and compares the ending balance to the checkbook, this does not mitigate the risk caused by the lack of segregation of duties because the reconciliation is not comparing tax receipts and disbursements to the bank, just the checkbook (which records bank activity) to the bank statements. See comment #1 where we recommend a true books to bank reconciliation. The risk of one person having control over the entire receipts process is that significant errors or fraud could occur and not be detected by the Sheriff. (As noted in comment #1, there were errors that were not detected during the audit period). We recommend the Sheriff implement and document compensating controls by ensuring a monthly reconciliation of taxes collected and distributed to bank activity is performed accurately, by reviewing the deposit and comparing it to the daily tax collection report, and by periodically performing the daily balancing or monthly

reconciliation himself or assigning it to another employee. The Sheriff should document this activity by signing and dating his review.

Sheriff's response: Another employee was added to help with segregation of duties and collect taxes

Franchise bills should be prepared correctly and delinquent franchise bills should be turned over to the county clerk. The following errors were found during our review of franchise bills:

- Incorrect tax rate was used on four bills.
- One bill was calculated incorrectly and the wrong rate and assessment amount for one district.
- One bill had three calculation errors and the wrong county rate.
- Incorrect assessments were used on two bills.
- Spencer County fire district was incorrectly included on two bills.
- City of Taylorsville was incorrectly included on two bills.
- One bill had the real estate totals omitted.
- Soil district was not included on franchise bills with real estate assessments.

The effect of these numerous errors caused some franchise taxpayers to pay more than the amount of tax actually due and some franchise taxpayers to pay less than the amount actually due. Although the County Clerk receives assessments from the state and prepares franchise bills, the Sheriff should review the bills before they are mailed to ensure they are prepared correctly. In addition, there were two franchise certifications that were not billed. Both of these bills were noted as not billed in the prior year audit.

We also noted nine franchise bills over 30 days old that were not turned over to the county clerk as delinquent. According to KRS 134.122, the Sheriff should turn over all delinquent real and personal property tax bills to the clerk.

We recommend the Sheriff review each franchise bill for accuracy before mailing to the taxpayer. The Sheriff should notify the county clerk when an error is noted so that the bill can be corrected before being sent out. We further recommend the Sheriff turn over all franchise bills that are delinquent as of the tax sale date to the county clerk. Additionally, the Sheriff should refund \$6,647 to franchise taxpayers for overpayments and notify the Clerk that additional bills should be prepared for those taxpayers that underpaid.

Sheriff's response: Met with County Clerk and auditor went over procedure for Franchise bills, the County Clerk will generate them and they will be checked by Sheriff's office before mailed, and any unpaid will be turned over to County Clerk on April 15 for tax sale.

County Clerk Lynn Hesselbrock's response: The County Clerk's office will ensure accuracy by having the franchise bills double checked. The Office will issue new bills to correct underpayments. The Clerk's Office will work closely with the Sheriff's Office to ensure accurate bills. Some of these errors occurred prior to the current administration.

The Sheriff should deposit and record all payments when received and distribute timely.

During review of bank accounts, we noted that the Sheriff held franchise bill payments for several weeks and deposited these payments in August and September of 2011. The funds were distributed to districts in October of 2011. As required by KRS 68.210, the State and Local Finance Officer shall prescribe minimum standards for fee officials, including making daily deposits intact. Additionally, according to KRS 134.191, the Sheriff should distribute tax collections monthly to the taxing districts. Holding checks in the office increases the risk that the checks will be lost or stolen and delays payment of needed tax money to districts. We recommend the Sheriff deposit all payments on the day they are received and distribute the taxes collected to taxing districts by the 10th of the month following the month of collection.

Sheriff's response: After April 15 when 2012 taxes are turned over to County Clerk a new account will be opened for the 2013 tax year.

The sheriff's responsibilities include collecting property taxes, providing law enforcement and performing services for the county fiscal court and courts of justice. The sheriff's office is funded through statutory commissions and fees collected in conjunction with these duties.

The audit report can be found on the [auditor's website](#).

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